

# BUDGET 1999

CAI

FNI

-1999

P68



Building today for  
a better tomorrow

3 1761 11553750 8

## Providing Tax Relief and Improving Tax Fairness

February 1999

Canada

*"Our goal and our commitment is to ensure that Canadians keep more of the money that they earn. After all, they worked for it. It's theirs."*

Finance Minister Paul Martin  
1999 budget speech



### Building on Previous Tax Relief

Each of the government's budgets has provided targeted tax relief where the payoff was substantial and where it would be most beneficial. Significant relief was provided to students, charities, persons with disabilities and the children of parents with low incomes.

The elimination of the deficit in 1997-98 allowed the government in the 1998 budget to introduce measures providing broad-based tax relief. The 1999 budget builds on these measures.

The government is committed to substantially reducing taxes, as and when it can. For tax relief to be permanent, it must be affordable and not jeopardize the soundness of Canada's finances.

For the first time since 1965, the 1999 budget provides tax relief for every taxpayer without borrowing money to pay for it. The greatest proportionate relief goes to low- and middle-income Canadians.

### Increasing tax-free income

Personal tax credits make the tax system fairer by ensuring that Canadians pay no tax on a basic amount of income.

The 1998 budget raised the amount of income that low-income taxpayers can receive on a tax-free basis by \$500. The 1999 budget increases that amount by a further \$175 to \$675 and extends it to all taxpayers.

This measure will raise the basic amount to \$7,131 as of July 1, 1999 and will more than offset the effects of inflation on this amount since 1992.

■ Due to the 1998 budget, 400,000 lower-income Canadians no longer pay any federal income tax. The 1999 measures will remove 200,000 more Canadians from the tax rolls for a total of 600,000.

### Eliminating the 3-per-cent surtax for all taxpayers

The 3-per-cent surtax was introduced in the 1986 budget as a temporary deficit fighting measure.

With the books in balance, the 1998 budget began the process of abolishing the 3-per-cent surtax, eliminating it for taxpayers with incomes up to about \$50,000 and reducing it for those with incomes between \$50,000 to \$65,000.

The 1999 budget completes the process by eliminating the 3-per-cent surtax for all Canadian taxpayers effective July 1, 1999.

### Assistance to Families With Children

The 1999 budget builds on previous budget actions to assist families through the Canada Child Tax Benefit (CCTB).

The CCTB ensures that most taxpayers with children pay less tax than individuals with similar incomes but no children.

The CCTB is composed of a base benefit and a supplement for low-income families. The supplement represents the federal investment in the National Child Benefit (NCB) system – a federal, provincial and territorial initiative to support families, reduce child poverty and ensure that low-income parents do not lose income supports and services when moving from welfare to the workforce.

### Canada Child Tax Benefit

As its initial investment in the National Child Benefit, the federal government committed \$850 million in the 1997 budget to the NCB supplement to provide benefits for low-income families.

The 1998 budget announced a further \$850-million increase in the supplement, for a total federal investment of \$1.7 billion.

The 1999 budget sets out the design for this increased assistance. The \$850 million announced in 1998 will be delivered in two stages of \$425 million in July 1999 and July 2000. Payments to low-income families will be increased by \$350 per child. As part of the initiative, the income threshold at which the supplement is fully phased out will be raised from \$25,921 to \$29,590.

### Extending benefits to modest- and middle-income families

The 1999 budget proposes to allocate an additional \$300 million in July 2000 to enhance CCTB benefits for modest- and middle-income families.

This will be done through an increase in the income threshold at which CCTB base benefits start to be reduced from \$25,921 to \$29,590.

■ This measure will provide increased child benefits to 2 million modest- and middle-income families.

### Significant benefits for families

Through the measures in the 1997, 1998 and 1999 budgets, total federal support for Canadian families through the CCTB will increase by \$2 billion to an annual level of close to \$7 billion by July 2000. This investment provides substantial benefits to families.

■ The maximum CCTB benefits by July 2000 will reach \$1,975 for the first child and \$1,775 for each additional child.

■ By July 2000, a typical two-child family with family income of \$20,000 will receive \$3,750 in CCTB benefits compared to \$2,540 in 1996, an increase of \$1,210 or 48 per cent.

■ By July 2000, a family with two children and an income of \$50,000 will receive \$1,020 in CCTB benefits compared to \$836 in 1998, an increase of \$184 or 22 per cent for that family.

### Tax Policy Principles

The tax measures in the 1998 and 1999 budgets reflect the three fundamental principles of the government's tax policy.

First, our tax system must be fair. Tax reductions must benefit first those who need them the most – low- and middle-income Canadians.



Second, broad-based tax relief should focus initially on personal income taxes. That is where the Canadian tax burden is greatest and most out of line with certain other countries.

Third, because of our debt burden, broad-based tax relief should not be financed with borrowed money.

## **Substantial and Fair Tax Relief**

The 1999 budget provides substantial and fair tax relief while adhering to the fundamental principles of the government's tax policy.

■ The 1998 and 1999 budgets together provide tax relief of \$3.9 billion in 1999-2000, \$6 billion in 2000-01 and \$6.6 billion in 2001-02, for a total of \$16.5 billion over three years.

■ In combination, the 1998 and 1999 budget actions, and the \$800-million employment insurance premium rate reduction for 1999-2000 provide tax relief of \$17.3 billion over the next three years.

■ The 1998 budget reduced taxes for 14 million Canadian taxpayers. The 1999 budget reduces taxes for all 15.3 million taxpayers.

■ Single taxpayers earning \$20,000 or less will have their federal income taxes reduced by at least 10 per cent as a result of the 1998 and 1999 budget measures.

■ Typical one-earner families with two children and with incomes of \$30,000 or less will pay no net federal income tax.

■ Families with incomes of \$45,000 or less will have their taxes reduced by a minimum of 10 per cent, and in some cases more, as a result of the 1998 and 1999 budget measures.

■ As a result of the 1998 and 1999 budgets, 600,000 lower-income Canadians will no longer pay any federal income taxes.

## **1998 and 1999 Budgets: Relief for Families**

Tax relief actions in the 1998 and 1999 budgets particularly benefit low- and middle-income Canadians and their families.

■ As illustrated in the table below, a typical single parent with one child earning \$20,000 received \$123 in federal tax relief from the 1998 budget. The 1999 budget provides an additional \$476 to this individual – \$126 through the increase in personal credits and \$350 in increased CCTB benefits – for total relief of \$599 as a result of the 1998 and 1999 budgets.

### **Federal tax relief for Jane**

*Single parent with one child  
and an income of \$20,000*

|   | Net federal relief<br>(dollars) |
|---|---------------------------------|
| <b>Pre-1998 budget federal tax<sup>1</sup></b>                    | <b>-1,496</b>                   |
| 1998 budget tax reduction   |                                 |
| Increased tax-free income   | -104                            |
| 3% surtax reduction   | -19                             |
| Total   | -123                            |
| 1999 budget tax reduction   |                                 |
| Increased tax-free income   | -126                            |
| 3% surtax elimination   | 0                               |
| Total   | -126                            |
| Canada Child Tax Benefit <sup>2</sup>                             | -350                            |
| Total relief <sup>3</sup>   | -599      -599                  |
| <b>Post-1999 budget federal tax<sup>1</sup><br/>(net benefit)</b> | <b>-2,095</b>                   |

<sup>1</sup> Negative values indicate that Jane receives more in federal refundable credits (CCTB & GST credit) than she pays in federal income tax.

<sup>2</sup> 1998 and 1999 budget increases. Negative values indicate an increase in benefits and thus a reduction in tax.

<sup>3</sup> Full-year impact.

■ As illustrated in the table below, a typical one-earner family of four earning \$30,000 received \$145 in federal tax relief from the 1998 budget. The 1999 budget provides an additional \$353 to this family – \$169 through the increase in personal credits and \$184 in increased CCTB benefits – for total relief of \$498 as a result of the 1998 and 1999 budgets.

### **Federal tax relief for Louis & Marie** *One-earner couple with two children and an income of \$30,000*

|   | Net federal relief<br>(dollars) |
|---|---------------------------------|
| <b>Pre-1998 budget federal tax</b>                                | <b>451</b>                      |
| 1998 budget tax reduction   |                                 |
| Increased tax-free income   | -60                             |
| 3% surtax reduction   | -85                             |
| Total   | -145                            |
| 1999 budget tax reduction   |                                 |
| Increased tax-free income   | -169                            |
| 3% surtax elimination   | 0                               |
| Total   | -169                            |
| Canada Child Tax Benefit <sup>1</sup>                             | -184                            |
| Total relief <sup>2</sup>   | -498      -498                  |
| % of federal income tax   | -110.4%                         |
| <b>Post-1999 budget federal tax<sup>3</sup><br/>(net benefit)</b> | <b>-47</b>                      |

<sup>1</sup> 1999 budget increases. Negative values indicate an increase in benefits and thus a reduction in tax.

<sup>2</sup> Full-year impact.

<sup>3</sup> Negative values indicate that Louis and Marie receive more in federal refundable credits (CCTB & GST credit) than they pay in federal income tax.

■ As illustrated in the table below, a typical two-earner family of four earning \$50,000 received \$183 in federal tax relief from the 1998 budget. The 1999 budget provides an additional \$373 to this family – \$189 through the increase in personal credits and \$184 in increased CCTB benefits – for total relief of \$556 as a result of the 1998 and 1999 budgets.

### **Federal tax relief for Don & Jenna** *Two-earner couple with two children and an income of \$50,000*

|                                       | Net federal relief<br>(dollars) |
|---------------------------------------|---------------------------------|
| <b>Pre-1998 budget federal tax</b>    | <b>3,716</b>                    |
| 1998 budget tax reduction             |                                 |
| Increased tax-free income             | -41                             |
| 3% surtax reduction                   | -142                            |
| Total                                 | -183                            |
| 1999 budget tax reduction             |                                 |
| Increased tax-free income             | -189                            |
| 3% surtax elimination                 | 0                               |
| Total                                 | -189                            |
| Canada Child Tax Benefit <sup>1</sup> | -184                            |
| Total relief <sup>2</sup>             | -556      -556                  |
| % of federal income                   | -15.0%                          |
| <b>Post-1999 budget federal tax</b>   | <b>3,160</b>                    |

<sup>1</sup> 1999 budget increases. Negative values indicate an increase in benefits and thus a reduction in tax.

<sup>2</sup> Full-year impact.

## **Looking Forward**

As resources become available, the government will provide as much tax relief as possible. This will occur year after year, each budget building on the progress made in the years before.

### **How can I get more information on the 1999 budget?**

Information is available on the Internet at: <http://www.fin.gc.ca>

You can also obtain copies of this brochure or other budget documents from:

Distribution Centre  
Department of Finance  
300 Laurier Ave. West  
Ottawa, Ontario, K1A 0G5  
Tel.: (613) 995-2855  
Fax: (613) 996-0518

*Ce document est également offert en français.*